

Doctoral Dissertation

**Essays on Voluntary Tax Payment in Indonesia**

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**(Summary of Dissertation)**

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September 2022

Taxation is a fundamental method for the government to generate public revenues that enable the financing of public goods and redistribution to reduce economic disparities. In contrast to developed nations, tax administration in developing nations is extremely problematic. Due to their limited human, technological, and financial resources, tax administrators in developing nations are compelled to devise efficient strategies for implementing effective tax policies. To be able to create an effective strategy to increase the level of taxpayer compliance, it is necessary to first comprehend how taxpayers behave. The main objective of this study, thus, is to identify the causal effect of governments' strategies on individuals' tax paying behavior (chapter 2), to explain the causal effect of information about the quality of public governance on people's tax attitudes (chapter 3) and the causal effect of individual preference toward redistribution (chapter 4).

Chapter 2 examines how deterrence and non-deterrence factors affect tax payment behavior., which is crucial for tax authorities to determine appropriate taxation strategies. The majority of the self-employed in developing countries are informal. One important argument is that many self-employed workers, even registered ones, involve tax non-compliance, and their motivation can be classified into deterrence and non-deterrence measures. We evaluate which measure helps elicit tax payment of the self-employed by conducting a randomized controlled trial on a unique sample of more than 6,000 self-employed taxpayers in Indonesia. To do this, all sampled taxpayers were randomly divided into four groups: one control and three treatment groups. Taxpayers in the first treatment group received a communication letter indicating deterrence, and those in the second and third treatment groups received a communication letter with reciprocity and patriotism framing as non-deterrence, respectively. In contrast, those in the control group received no communication letter. The results indicate that deterrence and non-deterrence interventions encouraged self-employed taxpayers to pay taxes. Importantly, the effect of the deterrence measure was short-lived and diminished in a short period, while that of the non-deterrence measures, irrespective of reciprocity and patriotism, lasted longer. Our study highlights

the importance of delivering messages, particularly related to non-deterrence, from revenue authorities to enhance tax compliance on taxpayers' behavior.

Chapter 3 investigates the effect of information about the quality of public governance on people's tax attitudes. Taxpayers tend to have an aversion to taxes because they often feel that they lack information about how their taxes are being spent. By conducting a vignette survey experiment with the Indonesian taxpayers, we demonstrate that citizens are more likely to perceive their tax obligations favorably if they are exposed to information that the government is acting in a trustworthy manner. This result suggests that a government's commitment to establishing good governance in tax revenue management can increase public confidence, which can be an important determinant of people's tax attitudes. Our study provides new empirical evidence on the impact of psychological ties between citizens and the government on citizens' willingness to pay taxes.

Chapter 4 examines the effect of wealth and source of wealth on individuals' preference toward income tax rate. An income tax is one of the important mechanisms for the government's redistribution strategy, particularly in developing economies where it is generally difficult to impose a wealth tax, a tax based on the market value of assets. Understanding individuals' preference for income tax rate is critical to examine how an individual responds to redistributive policies, which benefits the government in establishing an efficient and effective redistribution scheme. We provide the first investigation on the roles of wealth and its sources, such as inheritance and entrepreneurial profits, in influencing individuals' preference for income tax rate in a developing country. By performing a vignette experiment with a unique dataset of Indonesian taxpayers, we evaluate how information about different wealth sizes and sources affects individuals' preferences for income tax rate. Our findings indicate that taxpayers generally perceive that individual with high wealth should be subject to higher income tax rate, and more importantly, income tax rate should be higher when wealth is inherited than when wealth is accumulated through usual savings or entrepreneurial profits. This result implies that the distinction between income

without exerting efforts, such as inheritance, and income earned with pain or a utility cost, such as employment and entrepreneurship is critical in shaping people's perception of income tax rate and nation's redistribution policy. In developing economies, data collection and research collaboration with the government are extraordinarily challenging. As a result, we believe that our studies can provide a tiny piece of necessary empirical evidence, not only as part of comparative studies of taxation and redistribution across different regions to build a truly global body of knowledge in tax studies, but also as a policy design to support revenue authority practice in developing economies.